Postal Regulatory Commission
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ORDER NO. 6307

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Michael Kubayanda, Chairman;
Ann C. Fisher, Vice Chairman;
Mark Acton;
Ashley E. Poling; and
Robert G. Taub

Periodic Reporting
(Proposal Five)

Docket No. RM2022-11

ORDER APPROVING ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING (PROPOSAL FIVE)

(Issued October 20, 2022)

I. INTRODUCTION

On July 29, 2022, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11 requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports.[1] The Petition identifies the

[1] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Five), July 29, 2022 (Petition). The Petition was accompanied by a report supporting its proposal. *See* Report on Contract Delivery Service Cost Attribution Accrued Cost and Distribution Key, July 29, 2022 (Report). The Postal Service also filed a notice of filing of public and non-public materials relating to Proposal Five. Notice of Filing of USPS-RM2022-11-1 and USPS-RM2022-11-NP1 and Application for Nonpublic Treatment, July 29, 2022.

proposed analytical changes filed in this docket as Proposal Five. For reasons discussed below, the Commission approves Proposal Five.

II. PROCEDURAL HISTORY

On August 2, 2022, the Commission issued a notice initiating this proceeding, soliciting public comment, and appointing a Public Representative.[2] On August 25, 2022, the Public Representative filed a motion for issuance of information request.[3] On September 7, 2022, Chairman's Information Request No. 1 was issued with questions derived from the motion filed by the Public Representative.[4] On September 13, 2022, the Postal Service provided its Response to CHIR No. 1.[5]

The Commission received comments from the Public Representative on September 20, 2022.[6] On September 27, 2022, the Postal Service submitted reply comments,[7] along with a motion for leave to file reply comments addressing concerns raised by the Public Representative.[8] On September 28, 2022, the Commission filed an order granting the Postal Service's motion for leave to file reply comments.[9] No other parties submitted comments in this proceeding.

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[2] Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Five), August 2, 2022 (Order No. 6242).

[3] Public Representative Motion for Issuance of Information Request, August 25, 2022 (PR Motion).

[4] Chairman's Information Request No. 1, September 7, 2022 (CHIR No. 1).

[5] Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 1, September 13, 2022 (Response to CHIR No. 1). The Postal Service also attached a zip file of materials requested in CHIR No. 1, questions 6, 7, entitled "OneDrive_2022-09-13 (1).zip."

[6] Comments of the Public Representative, September 20, 2022 (PR Comments).

[7] Reply Comments of the United States Postal Service Regarding Proposal Five, September 27, 2022 (Postal Service Reply Comments).

[8] Motion of the United States Postal Service for Leave to File Reply Comments Regarding Proposal Five, September 27, 2022 (Postal Service Motion).

[9] Order Granting Motion for Leave to File Reply Comments, September 28, 2022 (Order No. 6283).

III. BACKGROUND

Contract Delivery Service (CDS) "is a contractual agreement between the U.S. Postal Service and an individual or firm for the delivery and collection of mail to and from homes and businesses."[10] CDS contracts are assigned to the purchased transportation cost segment and "[i]n fiscal year (FY) 2020, the Postal Service had more than 7,900 active CDS contracts, which cost a total of about $447 million." OIG Report No. 20-313-R21 at 1.

The USPS Office of Inspector General (OIG) conducted an audit of CDS cost attribution "to assess whether all CDS costs are accurately captured and reliably attributed to mail products and services." *Id.* Comparing estimated CDS costs from FY 2016 through FY 2020 to actual CDS payments incurred during that same time period, the OIG found a difference of approximately $83.7 million in absolute value. *Id*. at 7. To mitigate this discrepancy, the OIG recommended that the Postal Service:

> 1. Reevaluate the cost proportion percentages used to estimate accrued CDS costs; assess the possibility of using actual CDS payment data to calculate product costs; and, if deemed appropriate, submit a proposal to the [Commission] to update the costing methodology.
> 2. Conduct a study to determine whether similar mail volumes are delivered on CDS and rural routes; and, based on the results of that study, submit a proposal to the [Commission] to update distribution keys used to attribute CDS costs, if deemed appropriate.

Id. at 2.

In response, the Postal Service investigated these two recommendations and submitted Proposal Five to the Commission with its proposed updates.

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[10] United States Postal Servie, Office of Inspector General, Report No. 20-313-R21, Contract Delivery Service Cost Attribution, June 21, 2021, at 1, available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2021/20-313-R21.pdf* (OIG Report No. 20-313-R21).

IV. PROPOSAL FIVE

The Postal Service proposes two sets of revisions to the analytical principles that apply to CDS costs in order to address the OIG recommendations. First, the proposed changes update the cost proportions used to estimate accrued CDS costs. Second, the proposal revises the distribution key used to attribute CDS costs to products. Petition, Proposal Five at 1-2.

The Postal Service seeks to use Transportation Contract Support System (TCSS) data, updated on an annual basis, to update the CDS cost proportions for two general ledger (GL) Accounts: No. 53605 – Intra-CSD Regular (Intra-District) and No. 53601 – Intra-P&DC Regular (Intra-P&DC). *Id.* at 4-5. Although CDS accrued costs are not separately identified in the GL, these two accounts represent the majority of CDS costs. *Id*. at 2. CDS costs accrued in other accounts are treated in the same manner as the non-CDS costs in those accounts. *Id.*

Although the methodology used to calculate the CDS volume variability does not change with this proposal, the variabilities must be recalculated due to the proposed revisions. The overall volume variability is the product of the cost-to-capacity variability and the capacity-to-volume variability. *Id*. The Postal Service estimates the cost-to-capacity volume variability as cost-weighted averages. *Id.* at 3. The proposed cost proportions update these weights, which were last approved in Docket Nos. RM2014-6 and RM2021-1.[11]

The Postal Service also investigated the possibility of using actual CDS payment data from the Accounts Payable Excellence System (APEX). Petition, Proposal Five at 5. However, the APEX data do not contain the necessary information on vehicle capacity to allocate CDS payments to the correct transportation/route type. *Id*. Consequently, the Postal Service does not deem the APEX data to meet the evaluation standard of the Commission. *Id*. at 5-6.

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[11] *Id*. Docket No. RM2014-6, Order on Analytical Principles Used in Periodic Reporting (Proposals Three Through Eight), September 10, 2014 (Order No, 2180), Docket No. RM2021-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), October 6, 2021 (Order No. 5999).

The Postal Service also proposes to update the distribution key used to attribute CDS costs to products. *Id*. at 6. Currently, the Postal Service uses the Transportation Cost System (TRACS) Intra-SCF distribution factors to distribute volume variable CDS costs to products. *Id.* at 3. However, in response to the OIG recommendations, the Postal Service conducted a literature review of available CDS materials and determined that both operational protocols and field observations indicate that similar mail volumes are delivered on CDS and rural routes. *Id.* at 6. The Postal Service also notes that CDS suppliers and rural carriers perform similar activities. *Id*. To further support its position, the Postal Service explains that CDS routes may be converted to rural routes if such a decision provides financial or operational benefits. *Id.* at 7-8.

V. COMMENTS

The Public Representative supports Proposal Five but suggests two modifications. PR Comments at 12. Regarding the proposed update of the CDS cost proportions, the Public Representative "agrees with the Postal Service on the necessity to update the GL Account No. 53605 and Account No. 53601 cost proportions on an annual basis using TCSS data." *Id*. at 6. However, he recommends that the Commission direct the Postal Service to "let all CDS costs accrue into only" GL Account Nos. 53605 and 53601, as this will prevent future CDS costs from accruing in accounts "where they are treated similarly to the non-CDS costs in the hosts' accounts." *Id.* at 7.

The Public Representative also supports the conclusion of the Postal Service that APEX data do not contain the necessary information on vehicle capacity to allocate payment between the four transportation/route types. *Id*. at 8. Therefore, "the Public Representative concurs with the Postal Service that it is better and more accurate to estimate volume variable CDS costs through the application of annually updated TCSS data-generated cost proportions." *Id*. at 9.

Furthermore, the Public Representative concurs with the Postal Service that the rural distribution key is a better proxy than the current TRACS Intra-SCF distribution factors; however, he suggests that the Postal Service should perform an in-depth analysis comparing CDS and rural routes volumes. *Id*. at 10. He explains that an in-depth analysis will provide "complete and incontrovertible credence" to the hypothesis that a rural distribution key is "more credible" than the Intra-SCF distribution factors currently used to distribute CDS costs to products. *Id*. at 11.

In its reply comments, the Postal Service disagrees with the Public Representative's recommendations. Postal Service Reply Comments at 1. The Postal Service provides two reasons for opposing the Public Representative's position that all CDS costs should accrue into only GL Account Nos. 53605 and 53601. *Id*. First, the Postal Service reports that over 99 percent of CDS costs are already compiled into those two accounts. *Id*. 1-2. Second, the Postal Service contends that the Public Representative's concerns "appear[ ] to misinterpret" the Postal Service's statement that "'[c]hanges in either the individual variabilities for the transportation/route types or their relative proportions of the account category's costs can change the overall account category variability.'" *Id.* at 2 (citing Petition, Proposal Five at 3). The Postal Service avers that "changes in either the individual variabilities or the weights will change the overall variability for the account. Changes in the proportion of overall CDS costs accruing in the two accounts, however, do not necessitate a change in the account category variabilities." *Id*.

The Postal Service also argues that an expanded analysis of CDS and rural routes volumes is unnecessary. *Id.* at 3. As the Postal Service does not currently collect data at the product level for CDS routes, "the robust expanded analysis suggested by the Public Representative would likely require an extensive field data collection effort that would be time-consuming and expensive, yet would offer little in the way of tangible utility." *Id*. The Postal Service believes its original analysis in Proposal Five demonstrates how the rural distribution key is an improvement over the current distribution factors used. *Id*.

VI. COMMISSION ANALYSIS

The Commission finds that the proposed revisions to the analytical principles related to CDS costs represent an improvement to the quality, accuracy, and completeness of the data contained in the Postal Service's annual periodic reports to the Commission.

The proposed annual updates to the Intra-District and Intra-P&DC cost proportions represent an improvement to the quality and accuracy of data because they allow the Postal Service to account for changes in the cost proportions. The Intra-District cost proportions, which were last updated in Docket No. RM2014-6, observed shifts in the cost proportions for all four transportation types from FY 2013 to FY 2021. Report at 5. The Intra-P&DC cost proportions, which received an update more recently in RM2021-1, had smaller shifts in the cost proportions from FY 2019 to FY 2021. *Id*. 5-6. This data-driven update represents an improvement in the estimation of volume variable CDS costs.

The Commission does not adopt the Public Representative's recommendation to direct the Postal Service to accrue all CDS costs into only GL Account Nos. 53605 and 53601. As the Postal Service reports, in the FY 2021 dataset "over 99 percent of the CDS costs accrued in the two accounts" and "the FY 2021 circumstances were by no means atypical, in the FY 2019 and FY 2020 TCSS datasets, the percentages were 99.23 percent and 99.16 percent, respectively." Postal Service Reply Comments at 1-2. The Postal Service also notes that changes in the amount of CDS costs accruing in the two accounts does not necessarily change the account category variabilities. *Id.* at 2. Furthermore, the Postal Service's revisions improve the quality and accuracy of the data used in periodic reporting as proposed.

The Commission also finds that the rural distribution key represents a better proxy than the current Intra-SCF distribution factors used to distribute volume variable CDS costs to products. Utilizing the rural distribution key addresses some shortcomings of the current distribution. Report at 15-16. The proposed rural distribution key will distribute costs to some products in ancillary and special services that do not currently get attributed any costs. *Id*. at 15. Moreover, the comparisons of CDS suppliers, rural carriers, and Intra-SCF contractors conducted by the OIG and the Postal Service highlight the similarities between the CDS suppliers and rural carriers. *Id.* at 13; OIG Report No. 20-313-R21 at 11. The limited analysis of mail mixes on CDS and rural routes further supports the similarities between the two routes. *Id*. at 15; OIG Report No. 20-313-R21 at 12.

The Commission also declines to adopt the Public Representative's recommendation that the Postal Service conduct an expanded analysis comparing CDS and rural route volumes. The Commission accepts the Postal Service's representations that "[f]urther analysis would be costly, and yet it is virtually inconceivable that such efforts would…suggest that the current proxy should be maintained." Postal Service Reply Comments at 3. The Commission finds that the available analysis establishes that the revised proxy represents an improvement over the current proxy and does not require an expanded analysis that is unlikely to reverse that conclusion. If, in the future, the necessary data become available, the Commission encourages the Postal Service to perform such a study.

VII. CONCLUSION

Based upon a review of the Postal Service's filings, supporting workpapers, Response to CHIR No. 1, Public Respresentative comments, and Postal Service reply comments, the Commission approves Proposal Five. Pursuant to 39 C.F.R. § 3050.11, the Commission finds that the proposed analytical methodology improves the quality, accuracy, and completeness of the Postal Service's methodology for calculating CDS cost proportions and the distribution key used to attribute CDS costs. Therefore, the Commission approves Proposal Five.

VIII. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Five are approved.

By the Commission.

Erica A. Barker
Secretary